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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

| | |
|---|------------------|
| OMB APPROVAL | |
| OMB Number: | 3235-0123 |
| Expires: | January 31, 2007 |
| Estimated average burden hours per response..... | 12.00 |

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|-----------------|
| SEC FILE NUMBER |
| 8-52838 |

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**REPORT FOR THE PERIOD BEGINNING 01/01/2005 AND ENDING 12/31/2005
MM/DD/YY MM/DD/YY**A. REGISTRANT IDENTIFICATION**NAME OF BROKER-DEALER: Scott James Group, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

6700 Arlington Boulevard

(No. and Street)

Falls Church, Virginia

(City)

22042

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Scott S. James703-533-2500

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Mayah, Tamba, S.

(Name - if individual, state last, first, middle name)

7005 Good Luck Rd. New Carrollton, Maryland

(Address)

(City)

20784-3621

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

APR 26 2006

THOMSON
FINANCIAL**FOR OFFICIAL USE ONLY**

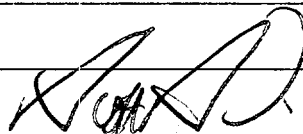
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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OATH OR AFFIRMATION

I, Scott S. James, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Scott James Group, Inc., as of December 31, 2005, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

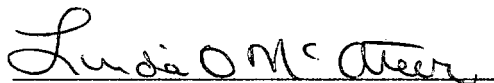
-None-



Signature

President

Title



Notary Public

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

City / County of FAIRFAX
Commonwealth/State of Virginia
The foregoing instrument was acknowledged
before me this 23 day of Feb
2006 by SCOTT S. JAMES
(name of person seeking acknowledgement)
Linda O. McAtee
Notary Public
My commission expires: 10/31/2007

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Scott James Group, Inc.
Statement of Financial Condition
For the Year Ended December 31, 2005

| <u>Assets</u> | <u>Allowable</u> | <u>Non-Allowable</u> | <u>Total</u> |
|-------------------------------------|------------------|----------------------|--------------|
| Cash | 55,573 | | |
| Receivables from Brokers or Dealers | | | |
| A. Clearance Account | 36,788 | | |
| B. Other | 1,900 | | |
| Other Assets | | 2,882 | |
| Total Assets | 94,260 | 2,882 | 97,142 |

Liabilities & Shareholder's Equity

| <u>Liabilities</u> | <u>AI Liabilities</u> | <u>Non-AI Liabilities</u> | <u>Total</u> |
|--------------------|-----------------------|---------------------------|--------------|
| Accounts Payable | 20,034 | 0 | 20,034 |
| Long-Term Debt | 0 | 0 | 0 |
| Total Liabilities | 20,034 | 0 | 20,034 |

Shareholders Equity

| | |
|--|---------|
| Common Stock | 1 |
| Additional Paid-In Capital | 104,206 |
| Retained Earnings | -27,098 |
| Total Ownership Equity | 77,109 |
| Total Liabilities & Shareholder's Equity | 97,142 |

For The Year Ended December 31, 2005

REVENUE

Commissions:

| | |
|---|---------------|
| Commissions on transactions in exchange listed securities | 16,258 |
| Commissions on listed options transactions | 0 |
| All other securities commissions | 16,668 |
| Total securities commissions | <u>32,926</u> |

| | |
|---|-------------------|
| Gains or losses on firm securities investment account | 0 |
| Fees for account supervision, investment advisory | 588,404 |
| Other revenue | 20,827 |
| Total Revenue | <u>642,157.50</u> |

EXPENSES

| | |
|--|----------------|
| Other employee compensation and benefit | 611,015 |
| Commissions paid to other broker-dealers | 11,646 |
| Interest expense | 1,776 |
| Regulatory fees and expenses | 16,408 |
| Other expenses | 5,143 |
| Total Expenses | <u>645,987</u> |

| | |
|------------|---------------|
| NET INCOME | <u>-3,830</u> |
|------------|---------------|

Scott James Group, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2005
Increase (Decrease) in Cash

Cash Flows from operating activities:

| | |
|---|----------------|
| Net Income | (3,830) |
| Increase In Accounts Payable | 3,701 |
| Increase In Accounts Receivable | <u>(1,630)</u> |
| Net Cash Provided by Operating Activities | <u>(1,759)</u> |

| | |
|--|---|
| Capital Contributions | 0 |
| Capital Withdrawals | 0 |
| Net Cash Provided by Capital Contributions | 0 |

| | |
|------------------------|----------------------|
| Net Decrease In Cash | (1,759) |
| Cash Beginning of Year | <u>97,001</u> |
| Cash End of Year | <u><u>95,242</u></u> |

Scott James Group, Inc.**Statement of Changes in Ownership Equity 2005**

| | |
|------------------------------|---------------|
| Balance, beginning of period | 80,938 |
| Net Income (loss) | -3,830 |
| Additions | 0 |
| Deductions | 0 |
| Balance, end of period | <u>77,109</u> |

Scott James Group, Inc.
Net Capital
31-Dec-05

| | |
|-----------------------------|------------------|
| Reconciled Cash Equivalents | 55,572.61 |
| Clearing Deposit | 25,000.00 |
| Web CRD Balance | 2,882.00 |
| Pershing Net Credit Balance | 11,788.02 |
| Accounts Receivable | 1,899.84 |
| Total Assets | <u>97,142.47</u> |
| -Total Liabilities | <u>20,033.57</u> |
| Net Worth | 77,108.90 |
| -Non-Allowable | 2,882.00 |
| Adjusted Capital | <u>74,226.90</u> |
| -Haircut | 0.00 |
| Net Capital | <u>74,226.90</u> |
| -Required Minimum | <u>50,000.00</u> |
| Excess Net Capital | <u>24,226.90</u> |

| | |
|----------------------------|-----------|
| Aggregate Indebtedness | 20,033.57 |
| Ratio of AI to Net Capital | 26.99% |

Scott James Group, Inc.
COMPUTATION OF NET CAPITAL
31-Dec-05

| | |
|---|--------|
| Total ownership equity from Statement of Financial Condition | 77,109 |
| Total ownership equity qualified for Net Capital | 77,109 |
| Total capital and allowable subordinated liabilities | 77,109 |
| Deductions and/or charges: | |
| Total nonallowable assets from Statement of Financial Condition | 2,882 |
| Net capital before haircut on securities positions | 74,227 |
| Haircuts | 0 |
| Net Capital | 74,227 |

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

| | |
|--|---------------|
| Minimum dollar net capital requirement of reporting broker or dealer (1) | <u>50,000</u> |
| Excess Net Capital | <u>24,227</u> |

COMPUTATION OF AGGREGATE INDEBTEDNESS

| | |
|--|--------|
| Total AI Liabilities from Statement of Financial Condition | 20,034 |
| Total aggregate indebtedness | 20,034 |
| Percentage of aggregate indebtedness to net capital | 26.99% |

(1) Operates under (k)(2)ii exemption.

No differences exist between the unaudited Part IIA Focus Filing and this report.

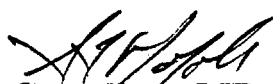
**To the Shareholders and Board of Directors
The Scott James Group, Inc.**

Independent Auditor's Report

We have audited the accompanying statement of Net Capital of The Scott James Group, Inc. including the Statement of Financial Condition, as of December 31, 2005, the related statements of Income, Cash Flows, changes in Ownership Equity, and the notes to the financial statements for the period then ended. These financial statements and notes to the financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and notes to the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the notes to the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and the notes to the financial statements. Our procedures included confirmation of securities owned as of December 31, 2005 by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and the notes to the financial statements referred to above present fairly, in all material respects, the financial position of The Scott James Group, Inc., as of December 31, 2005, the results of its operations and changes in net assets for the year then ended, and the notes to the financial statements as of December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.



**New Carrollton, MD
February 22, 2006**

The Scott James Group, Inc.

Notes to the Financial Statements -- December 31, 2005

Significant Accounting Policies: Nature of Operations

The Scott James Group, Inc. "the Company" is an NASD Broker/Dealer. The following is a summary of the significant accounting policies consistently followed by the Company in the preparation of its financial statements. The policies are in conformity with accounting principles generally accepted in the USA.

Security Valuation

All investments are carried at fair value, which are market quotations when readily available or determined in "good faith" by the Board of Directors when market quotations are not readily available. Money market funds are carried at fair value.

Federal Income Taxes

The Company operates as a Subchapter S corporation and as such all tax liability flows through to the personal return of Scott S. James, who is 100 percent owner and principal.


Others

The Company follows industry practices and records security transactions on the trade date. The specific identification method is used for determining gains or losses for financial statements and income tax purposes. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis.

**To the Shareholders and Board of Directors
The Scott James Group, Inc.**

Subject: Material Inadequacies

**As required by SEC Rule 17a-5(d)(1), the Rule, and in connection with
our audit of The Scott James Group, Inc. for the period ended
December 31, 2005, we have found no material inadequacies to report.**


**Tamba S. Mayah, CPA
New Carrollton, MD
February 22, 2006**

To the Shareholders and Board of Directors,
The Scott James Group, Inc.

Report About Internal Control

In planning and performing our audit of the financial statements and supplemental schedules of The Scott James Group, Inc., "the Company", for the year ended December 31, 2005, we considered its internal control, including activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission, the SEC, we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant in the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate debts and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following.

1. Making quarterly securities examinations, counts, verifications, and comparisons;
2. Recordation of differences required by Rule 17a-13;
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

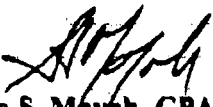
Management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1974 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005, to meet SEC objectives.

This report is intended solely for the information and use of the members, management, the SEC and the National Association of Securities Dealers, Inc. in their regulation of registered brokers and dealers, and is not intended to be, and should not be, used by anyone other than these specified parties.


Tamba S. Mayah, CPA
New Carrollton, MD
February 22, 2006